

BRIDGING PROFIT AND PURPOSE

# THE ROLE OF STRUCTURED PRODUCTS IN IMPACT INVESTING

Impact investing has emerged as a powerful financial strategy that bridges profit with purpose. Unlike traditional investing, its core objective is to generate measurable, positive social or environmental outcomes alongside financial returns. This focus on intentional impact differentiates it from the broader Environmental, Social, and Governance (ESG) approach, which primarily emphasizes risk management rather than societal change. Since the adoption of the Sustainable Development Goals (SDGs) and the Financing for Development agenda in 2015, impact investing has gained considerable traction, helping address critical challenges such as climate change, poverty, and inequality.

The market for impact investing is projected to grow at a **Compound Annual Growth Rate (CAGR) of 17%** between 2023 and 2030, opening significant opportunities for investors. A key development in this space is the integration of **structured products**, which allows for the tailoring of investment strategies which meet both financial objectives and impact goals.

This white paper explores the potential of structured products within impact investing, distinguishing between ESG and impact approaches, analysing trends and performance, and presenting real-world case studies.

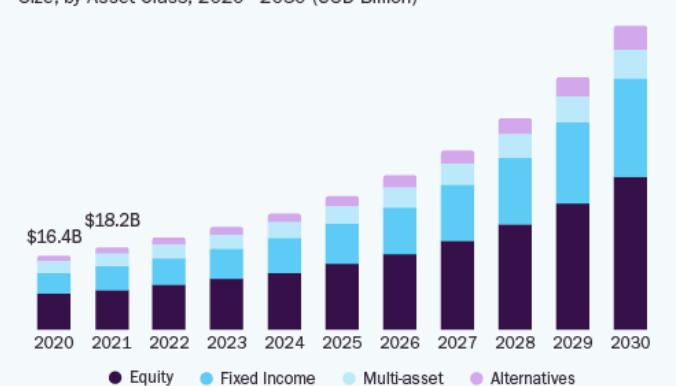
## DEFINING IMPACT INVESTING AND STRUCTURED PRODUCTS

Impact investing targets businesses, organizations, and projects designed to deliver solutions to societal issues while achieving financial returns. Unlike philanthropy, which purely focuses on donations for social good, impact investing seeks market-rate returns along with positive social outcomes. Investments may be directed towards renewable energy, affordable housing, healthcare in underserved communities, or sustainable agriculture.

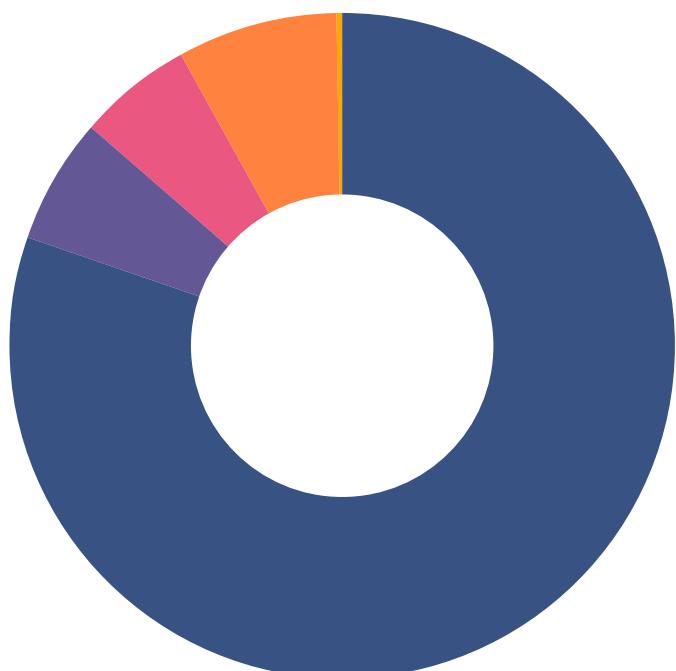
The impact investing market has been largely driven by the alignment of portfolios with social responsibility. For example, as of 2023, **80% of impact investments in fixed income** have been made in the U.S., with over \$5.4 billion in assets under management. The alignment of financial returns with measurable impact has become a mainstream trend, especially in developed economies.

### U.S. Impact Investing Market

Size, by Asset Class, 2020 - 2030 (USD Billion)



Source: [www.grandviewresearch.com/industry-analysis/impact-investing-market-report](http://www.grandviewresearch.com/industry-analysis/impact-investing-market-report)



### IMPACT INVESTING IN GLOBAL FIXED INCOME (\$BN)

Region	Value (\$BN)
US	5.4
Americas (ex. -U.S.)	0.405
Europe	0.389
Asia Pacific	0.507
Africa & Middle East	0.0162

80% of impact investing in Fixed Income is made in the U.S. (USD 5.4 billion) - Source: nuveen

## OVERVIEW OF STRUCTURED PRODUCTS

Structured products are financial instruments created by combining various types of assets, often including bonds and derivatives, to meet specific investment goals. These products are designed to provide tailored exposure to different market conditions, such as equities, interest rates, or commodities. Structured products often feature contingent payoffs, meaning that returns depend on the performance of underlying assets, and they can provide some level of capital protection.

Structured products align well with impact investing because they can be structured to target specific outcomes, such as increasing access to education, healthcare, or environmental sustainability. For instance, an impact-focused structured note could be linked to healthcare initiatives while still offering financial returns to investors.

### Impact Investing vs. ESG Investing: A Key Distinction

Although both impact investing and ESG investing incorporate social and environmental factors, their objectives are distinct. The table below summarizes the differences:

CRITERIA	IMPACT INVESTING	ESG INVESTING
<b>Primary Objective</b>	Generate measurable social/environmental impact	Manage environmental, social, governance risks
<b>Financial Goal</b>	Dual focus on impact and financial returns	Primarily financial performance
<b>Intentionality</b>	Intentional impact creation	Risk management, not necessarily intentional change

While ESG investing evaluates companies on how well they manage risks across environmental, social, and governance dimensions, impact investing directly seeks to create measurable outcomes. Investors intentionally support projects that address issues like poverty, climate change, and inequality, creating a more tangible connection between investments and social goals.

## THE GROWING ROLE OF STRUCTURED PRODUCTS IN IMPACT INVESTING

### Trends in US structured products sales

Our data on structured products in the U.S. reveals a positive trend in both sales and assets under management (AUM) from 2021 to 2024. Total sales increased from \$106.89 billion in 2021 to \$142.90 billion in 2024, demonstrating a robust demand for structured products as investors seek tailored investment solutions. Similarly, AUM has grown significantly, rising from approximately \$132.19 billion in 2021 to \$258.12 billion in 2024. This more than doubling of AUM indicates a strong investor confidence in structured products, highlighting their increasing role in portfolio diversification and risk management strategies. The growth in both metrics underscores the increasing appetite for structured notes in the U.S. market.

#### TOTAL SALES AND AUM IN STRUCTURED PRODUCTS IN THE US (\$BN)



YEAR	2021	2022	2023	2024
Total Sale	106.89	111.50	134.06	142.90
AUM	132.19	190.50	227.27	258.12

When examining product subtypes market share for 2023 and 2024, we notice shifting investor preferences. Income products have increased from 36% to 40.3%, indicating a growing demand for stable cash flows amid market volatility. Growth products also saw a slight rise from 38% to 39.5%, suggesting continued interest in capital appreciation opportunities. In contrast, capital protected products experienced a significant decline from 26% to 20.2%, reflecting the impact of lower rates. Overall, these trends suggest that investors are prioritizing income and growth over capital protection as they navigate the current economic landscape.

#### BREAKDOWN OF PRODUCT SUBTYPES MARKET SHARE IN THE U.S. (2024)



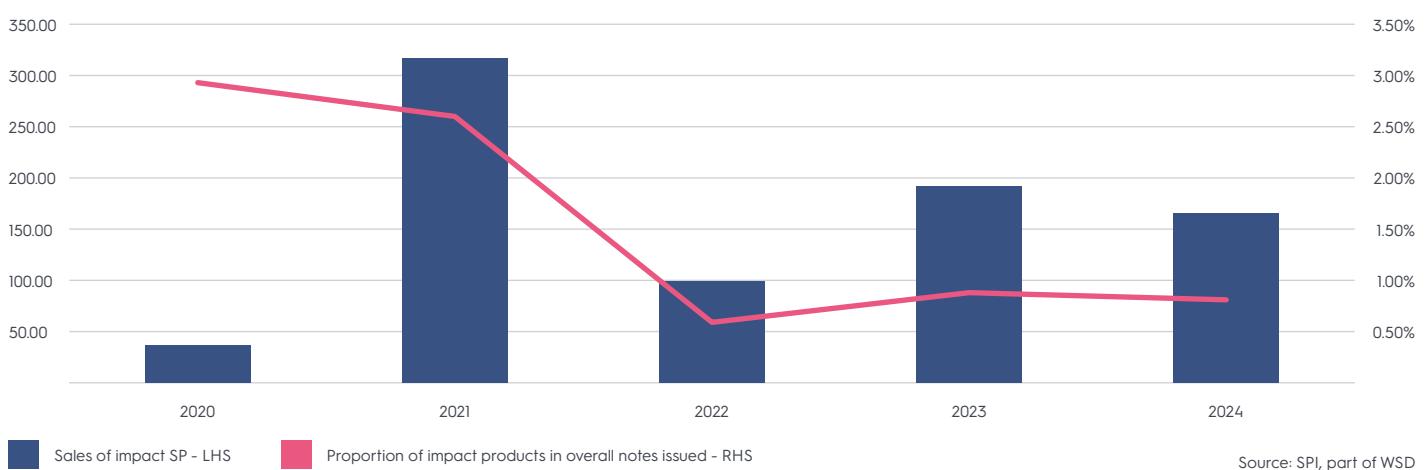
Source: SPI, part of WSD

## PERFORMANCE AND COSTS: A COMPARATIVE ANALYSIS

### Performance analysis of Impact structured notes

Sales of impact structured notes sold by one of the biggest issuers have shown a compelling upward trend over the years. Starting at \$37 million in 2020, there was a remarkable spike to \$317 million in 2021. Although 2022 experienced a decline to \$98 million, sales rebounded in 2023, reaching \$192 million. However, a slowdown is expected in 2024, with projected sales anticipated to be around \$160 to \$170 million. This slowdown can be explained by the fact that impact notes usually provide 100% capital protection. Therefore, a reduction in appetite for fully capital protected products would mechanically translate in a reduction of impact notes sold. Overall, in the 98 impact structured products that we considered in this analysis, the absolute values achieved indicate a positive outlook for future growth in the impact segment.

#### SALES OF IMPACT NOTES (\$M)



Source: SPI, part of WSD

YEAR	2020	2021	2022	2023	2024
<b>Sales of Impact SP - US</b>	36.57	317.25	98.80	192.01	165.00
<b>Proportion of impact products in overall notes issued - RHS</b>	2.93%	2.60%	0.59%	0.88%	0.81%

### Impact vs non-Impact Investments – costs and performance analysis

The big question for investors and distributors is what's the impact of the Impact feature on the product on the product. That can be split into an analysis of two indicators: 1) The total cost paid by the investor and 2) the actual performance of the products.

On the first one, when analysing the distribution fees (Sales concession) of impact products issued are higher by 34 bps per annum when compared to non-impact products. While this means a slightly higher cost to investors, it also reflects the specialized nature of these offerings. Investors may be willing to accept this extra cost as they prioritize the positive social impacts associated with their investments.

	SALES CONCESSION	TERM (YEARS)	SALES CONCESSION ANNUALISED
<b>Impact products</b>	2.13%	3.35	0.64%
<b>Non-impact products</b>	1.70%	5.70	0.30%

Sales concession of impact products vs. non-impact similar products annualised – Source: SPI, part of WSD

	AVERAGE ANNUALIZED PERFORMANCE	REAL ANNUALIZED RETURN	AVERAGE TERM (YEARS)	AVERAGE CAPITAL PROTECTION
<b>Impact products</b>	+5.83%	+2.18%	2.23	
<b>Non-impact products</b>	+6.44%	+2.79%	2.27	
<b>Average inflation rate</b>		3.65%		100%

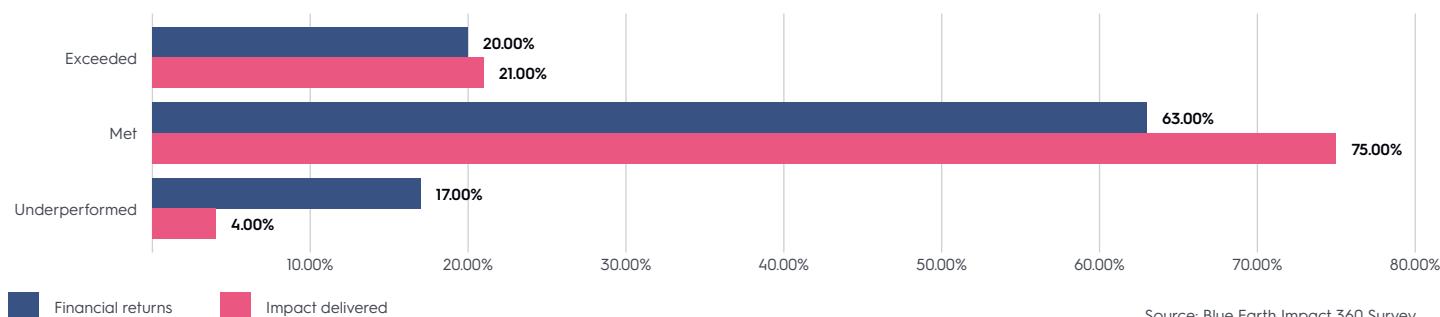
Comparison of Estimated annualised return of impact notes vs. non-impact of similar matured products- Source: SPI, WSD

When considering the impact of costs on performance, impact products tend to have slightly lower annualized returns. It's important to highlight that all Impact products are capital protected, which means risk is lower in comparison with the average Income and Growth structured product. With just 60bps p.a. of lower performance, the real return above inflation is still positive, this prompts the question of how much value Americans place on achieving social impact through their investments.

A survey from Blue Earth Capital reveals that over 80% of impact investors have reported that the financial performance of their investments either met or exceeded their expectations. Moreover, 96% of impact investors were satisfied with the impact delivered.

Ultimately it seems that there's a need for a growing number of Impact investment solutions and structured products are a good vehicle for it. The question is if Manufacturers and Distributors see the value in creating these products.

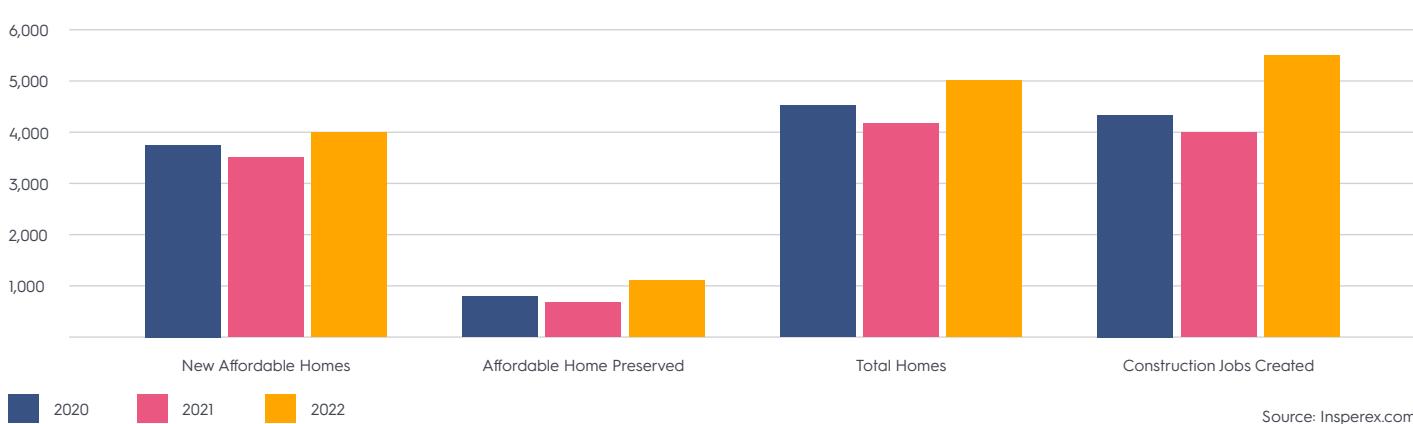
#### RESPONDENT'S VIEWS ON THE PERFORMANCE OF THEIR IMPACT INVESTMENTS TO-DATE VS. THEIR EXPECTATIONS



## IMPLICATIONS FOR AMERICANS

Impact investing affects Americans in several meaningful ways. It channels capital into projects and businesses that address pressing social and environmental challenges, such as affordable housing, clean energy, and healthcare access. This can lead to job creation and economic growth in underserved communities. For instance, Century Housing Corporation is a mission-driven Community Development Financial Institution (CDFI) that finances quality, affordable housing throughout California to provide dignified homes. It also created more than 5,000 construction jobs in 2022.

#### POSITIVE SOCIAL IMPACT OF CENTURY'S SUSTAINABLE NOTES



## CASE STUDY



### J.P. Morgan – Empowering Charitable Impact Through Structured Notes

J.P. Morgan has issued approximately 1,300 Notes and CDs which raise awareness for charitable causes and allow investors to indirectly support environmental and social initiatives in North America. Since the programme's inception in 2020, J.P. Morgan has partnered with three different U.S. based charities: The Nature Conservancy, Start Small Think Big, and UPchieve. Each non-profit is part of a philanthropic sector that J.P. Morgan believes to resonate with current sentiment. The specific charities are selected, vetted and onboarded through a dedicated internal due diligence process.

Starting in October 2024, JPMorgan will collaborate with Blue Star Families, a national nonprofit network committed to supporting military families across the United States. Blue Star Families does this through community building, support services, education, advocacy, career support, and various programs that address their unique challenges. The initiative aligns closely with J.P. Morgan's values and work, as the Firm's Military & Veterans Affairs (MVA) Office is dedicated to helping military members, veterans, and their families thrive post-service.

It's important to note that these structured note issuances do not qualify as Green Bonds or Social Bonds and therefore do not adhere to the International Capital Markets Association's Green Bond Principles or Social Bond Principles.

According to J.P. Morgan, the program's global impact to date is over \$2 million donated to various charitable organisations with proceeds contributing towards causes such as pro bono legal, finance and marketing services for entrepreneurs, tuition opportunities for the most underserved students in the U.S. and supporting military family members.

J.P. Morgan's goal for this Structured Notes program is to build out the selection of supported causes across philanthropic sectors, aiming to raise awareness and align with investors' values when they invest in products with additionality.

## CASE STUDY



### BNP Paribas – Driving Social and Environmental Change Through Impact Investing

BNP Paribas, a global leader in sustainable finance, has integrated social and environmental responsibility into its Impact Investing Notes, enabling investors to support meaningful causes while achieving financial goals.

Through a recent partnership with nonprofit The Forgotten International, BNP Paribas directs a portion of proceeds from its Structured Notes Program to La Comunidad de Niños Sagrada Familia in Peru. This school, orphanage, and clinic provides care for over 1,000 children. For every \$10,000 in structured notes purchased between October 1 and December 31, 2021, BNP Paribas donates to cover a day's meals for a child at Sagrada Familia.

In addition to this philanthropic effort, BNP Paribas contributes to environmental sustainability through partnerships with organizations like Reforest'Action, planting trees for every \$1,000 in structured notes traded, aiding reforestation and carbon capture efforts globally.

These initiatives showcase BNP Paribas' commitment to impact investing—using financial products to drive positive societal and environmental outcomes without affecting product terms for investors.

#### Key Highlights:

- **Philanthropy:** Donations support the care and feeding of children at Sagrada Familia in Peru.
- **Environmental Impact:** Reforestation projects funded by structured note trades.
- **Employee Engagement:** BNP Paribas staff actively support fundraising and volunteer efforts.
- **Investor Benefit:** No changes to the structured note terms; all donations are covered by BNP Paribas.

BNP Paribas continues to lead in aligning financial products with global responsibility, offering investors the chance to make a real-world impact.

## WSD is a Tier 1 market leader, serving ~70% of global tier 1 issuers

Sitting at the heart of the structured products value chain we are a **mission critical component** of our clients' infrastructure and differentiate ourselves through **unrivalled domain knowledge and technical capabilities**.

### WSD's role

#### Documents

We help issuers with the automated creation, approval and archiving of complex, high-volume legal, regulatory, sales and marketing documents

- Mission-critical to revenue generation
- Lower unit economic costs
- Improved accuracy and regulatory compliance
- Straight-through process automation

#### Connectivity

We help issuers disseminate documents and data to the buy side, exchange, regulators and data vendors

- Critical linkage to regulators and exchanges
- MiFID II compliant product distribution
- SEC compliant product issuance
- Speed to market through automatic exchange listing

#### Data & Platforms

We help issuers manage a product's entire lifecycle. Access to aggregated market level data sourced from a mix of proprietary and external data feeds

- Unifying pre and post-issuance workflow
- Entire lifecycle visibility to clients
- Automatic product feeds from WSD's SPi database
- Seamless integration with existing settlement systems and other back office administration tools

### How can we help you?



**Documents**  
Automated production of issuance documentation



**Data**  
Issuance and lifecycle management data for informed decision making



**Digital**  
Data transmission to regulators and trading venues



**Portals**  
Websites and white-labelled client-facing portals

Our pursuit of excellence is what sets us apart and drives our success and we are committed to deliver the utmost quality in everything we do.

Get in touch with us today to find out how we can help you.

wsd

# INSIGHTFUL ROBUST DATA

+44 (0) 203 865 1786

[info@sp-intelligence.com](mailto:info@sp-intelligence.com)

[www.sp-intelligence.com](http://www.sp-intelligence.com)



PART OF THE WSD GROUP